Accrete Energy Inc. | Annual Report 2006

ABBREVIATIONS

WTI West Texas Intermediate
API American Petroleum Institute
bbl one stock tank barrel
mbbl one thousand barrels
bbl/d barrels per day
boe barrel of oil equivalent
mboe thousands of barrels of oil equivalent
boe/d barrel of oil equivalent per day
NGL natural gas liquids
mcf one thousand standard cubic feet
mmcf one million standard cubic feet
bcf one billion standard cubic feet
mcf/d one thousand standard cubic feet per day
mmcf/d one million standard cubic feet per day
GJ gigajoule

ANNUAL GENERAL MEETING:

Shareholders and future shareholders are invited to attend the annual meeting of shareholders scheduled to be held at 3:00 pm on Tuesday, May 15, 2007 at the Metropolitan Centre 333 - 4th Avenue S.W. Calgary, Alberta.

Accrete Energy Inc. is an aggressive, drill-oriented junior oil and gas exploration company with a focused high quality asset base in Alberta. The Company maintains high working interests and the proven management team operates all of its properties. Since inception Accrete has added reserves at a weighted average cost of $10.36.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	December, 31 2005	**December 31, 2006**
Production	1276 boe/d	**2,540 boe/d**
Reserves (P+P)	8770 mboe	**9797mboe**
Land - Working Interest - Option Lands	20,208 (net) 22,280 (gross)	**37,903 (net)** **10,240 (gross)**
Cash Flow	$13.5 MM	**$19.7 MM**
Cash Flow Per Share Basic	$.89	**$1.28**
Shares Outstanding	15,232,936	**16,497,902**
- fully diluted	16,698,781	**17,923,747**
Operating Costs/boe	$5.05	**$5.49**
Field Netback/boe	$35.83	**$26.50**


WORD IS BOND

Letter To Shareholders

PRESIDENT'S MESSAGE

2006 proved to be another exciting year in the oil and gas industry. Strong commodity pricing caused record level exploration, development and merger and acquisition activities. This strong pricing environment helped to provide some of the $51 million the Company spent on capital projects, resulting in excellent production and reserve growth.

The Company's mandate for our core area at Harmattan was to create a capital program which would increase our production and working interest throughput at our facilities. At year end, Harmattan had production increases of 100% over 2005.

The Company's Claresholm production remained steady and operating costs low throughout 2006. Although no reserves or production additions occurred in 2006, two exploratory wells drilled in Q1 2007 renewed further exploratory interest in this area.

The Company's near-term production growth will come from the Pouce Coupe area in Northwestern Alberta. In 2006, the Company drilled two 100% wells and participated in two others (70% net). Production from these wells is anticipated to be on-stream in early 2007. Three additional wells in this area are planned for 2007.

Future Company growth is expected to come from its exploratory efforts in the Edson and Saxon areas of West Central Alberta. The Edson area provides a multi-target, resource style project within a logistically challenging area. Two wells were drilled and completed in 2006 followed by two more wells in Q1 2007.

The Company drilled one well in the Saxon area early in 2007 to test its geological concepts. Continued drilling in this area will require the acquisition of additional lands and seismic data.

Although rising capital costs and lower commodity pricing late in 2006 led to higher finding costs and lower netbacks, we are extremely pleased with the Company's growth in 2006. Year end reserves were 9.8 mmboe, an increase of 11.7% or 24.4% when adjusted for the sale of the Boltan property. The Company replaced production by a factor of 3. Production rates doubled in this period to 2,540 boe/d from 1,276 boe/d the previous year. Cash flow grew to $1.28 per share, an increase of 46% from 2005 and earnings increased 21% to $4.0 million. Our mandate for 2007 is to ensure strong reserve growth. Scrutinizing our prospect selection process while continuing to employ a cost effective approach to our operations will, in turn, have a positive effect on our recycle ratio.

The decision by our federal government to enact changes to the tax structure of Income Trusts caused a great deal of uncertainty in the Industry and the Market. Despite this uncertainty, the Company intends to continue to focus on low cost, high quality asset growth through the drill bit. We look forward to 2007 being another rewarding year of increased reserves, production and profitability.

As in the past, the Company's accomplishments are a tribute to the expertise and hard work of our dedicated staff and the guidance and judgment of our Board of Directors. As always, it is my distinct pleasure to be associated with this group of highly capable professionals. I would also like to thank our loyal shareholders for their continued support.

Peter M. Salamon
President


OUR
HOOD

Operations Review

OVERVIEW

Accrete continued to focus its operations by spending 65% of the 2006 capital budget on its two core areas of Harmattan and Claresholm. The balance of the 2006 budget was spent in the Company's new areas of Edson, Pouce Coupe and Saxon. Although relatively new project areas for the Company, initial drilling success in these areas has been encouraging and the Company's plans are to continue with development. The Company determined that the Boltan area assets no longer met the Company's long-term objectives and the assets were sold in Q1 for $9.3 million dollars.

In 2006, the Company drilled 23 (16.2 net) wells, resulting in 10 (7.5 net) oil wells, 8 (5.2 net) gas wells and 5 (3.5 net) dry holes for a combined success rate of 78.1%.

Harmattan
T32
T31
R5W5
R6
Claresholm
T12
T11
T10
R26
R25


EDSON
T50
R18
T49
R17
ACCRETE LAND
DRILLING LOCATIONS
DRILLED OIL/GAS WELLS
ABANDONED WELLS
3D SIESMIC

CLARESHOLM

The Company's Claresholm property is located approximately 10 kilometers east of the town of Claresholm and approximately 100 kilometers south of Calgary. In 2006, the Company drilled 4 (2.2 net) wells resulting 1 (0.6 net) gas well and 3 (1.6 net) dry holes. Early in Q1 2007, the Company drilled a new pool discovery well at 3-12-11-26-W4M followed by a second gas well at 16-2-11-26-W4 (80% net). A 5 mile pipeline tie-in to the Company's 10 mmcf/d production facility is expected to be in place early in Q2 2007 and two follow-up locations and a 3D seismic program are planned for 2007.

EDSON

The Edson project is located approximately 20 kilometers south of the town of Edson and 190 kilometers west of Edmonton. Edson is a new project area for the Company with multi-zone sweet gas and condensate potential. In 2006, the Company drilled 2 (2 net) gas wells. One of the wells has been tied-in and the second well is expected to be tied-in by the end of 2007. In addition, 2 (2 net) additional earning wells have been drilled and completed which have multi-zone potential. Testing and completion of these wells should be finalized by the end of 2007. Although an inventory of ten drilling locations has been identified, winter access is preferred to keep the costs within acceptable limits.

HARMATTAN

Harmattan is located 10 kilometers south of the town of Sundre and 90 kilometers northwest of Calgary. This condensate rich sweet gas and oil property is the Company's largest core area. The gas compression facility commissioned in 2005 was expanded in 2006 to increase throughput from 9 mmcf/d to 13.5 mmcf/d.

The Company drilled 13 (9.3 net) wells in 2006 of which 12 (8.4 net) were successful for a 92% success rate. Of the 12 successful wells, 10 (7.5 net) were Cardium oil wells and 8 (6.4 net) had two productive Cardium zones present. The remaining 2 (0.92 net) wells are potentially productive from the Viking and Basal Quartz zones.

The Company continues to increase its exposure in this area through land acquisitions and has identified 15 additional development locations including 5 with dual zone targets.

POUCE COUPE

Pouce Coupe is located 100 kilometers northwest of Grande Prairie, adjacent to the British Columbia border and is a new exploration area for the Company. The Company drilled 4 (2.7 net) wells in 2006 resulting in 3 (1.7 net) Halfway gas wells and 1 (1 net) dry hole. Tie-in of the gas wells is underway and is expected to be completed by the end of Q1 2007. The Company plans to apply for reduced spacing which will allow a number of infill locations. The Company's proprietary 3D Seismic has identified deeper targets which are being reviewed and may be drilled in 2007.

SAXON

Saxon is located 125 kilometers southeast of Grande Prairie and is also a new project area for the Company. In Q1 2007, 1 (1 net) well was drilled and two gas bearing zones have been completed. Initial production is expected in Q2 2007. Although the Company has identified an additional eight locations based on 2D seismic and well data, acquisition and evaluation of additional 3D seismic data will help to finalize these multi-zone locations.

LAND REVIEW

In spite of the divestiture of its interest in the Boltan area property (8960 acres gross) in April, the Company increased its land holdings during 2006 by approximately 25% gross and approximately 88% net. These results were accomplished by a combination of successful bids at Crown land sales (13,440 acres gross, 12,800 acres net) and earning under farmin terms (9440 acres gross, 6,864 acres net). In addition, at year-end, the Company held 10,240 acres under option earning terms of which 5120 acres have been successfully earned through the drilling of farmin commitment wells during Q1 2007. Highlights of the Company's acreage acquisition efforts during 2006 are as follows:

BOLTAN

As a result of an acreage inventory review early in 2006, the Company deemed the Boltan area property to be "non-core" and, as a result, successfully divested its interest in 14 sections to an industry competitor during Q1 2006. The proceeds realized by this sale were redeployed in the Company's existing core areas as well as in efforts to establish new exploration prospects.

HARMATTAN

The Company increased its land base by drilling two farmin earning wells in this core area during 2006; one to earn Cardium rights in 480 acres in the heart of our developing Cardium pool and the second to earn 1,280 acres (864 net) of exploration rights below the producing Cardium trend (the second of a two-well program).

CLARESHOLM

The Company's acreage inventory increased by 3,200 acres (1,600 net) by drilling the second of a two-well exploratory farmin commitment during 2006. At year end, the Company held an additional 1920 acres under farmin option terms which were satisfied during Q1 2007, enabling the Company to increase its working interest from 50% to 80% in a new Mannville gas pool discovery.

EDSON

The Company established a presence in a new exploration trend at Edson by successfully acquiring 3,840 acres at Crown sales and adding an equivalent acreage position through the drilling of two farmin earning wells on industry-partner lands. During Q1 2007, an additional 3,200 acres were earned through the drilling of two more commitment wells, with the Company continuing to hold 3,840 acres under option earning terms in this area.

POUCE COUPE

The Company supplemented its existing land base in this multi-zone prospective area by acquiring 1,280 acres at Crown land sales and an interest in a further 1,280 acres (445 net) of offset lands by the drilling of two farmin earning wells.

SAXON

The Company established a significant presence in this new exploration trend by acquiring a total of 6400 acres of prospective acreage at Crown land sales during 2006.

UNDEVELOPED LAND HOLDINGS BY AREA (NET ACRES)

Area	December 31, 2005	December 31, 2006
Atlee-Buffalo	540	**540**
Boltan	4,749	**0**
Bonanza	0	**640**
Claresholm	3,488	**10,832**
Edson	0	**5,760**
Harmattan	7,070	**9,219**
Jumping Pound	93	**0**
Peco	1,920	**1,920**
Pouce Coupe	1,068	**1,920**
Saddle Hills	0	**672**
Saxon	0	**6,400**
Strachan	1,280	**0**
Total	20,208	**37,903**

OPTION LANDS (ACRES)

Area	December 31, 2005	December 31, 2006
Claresholm	19,520	**1,920**
Devon	1,480	**0**
Edson	0	**7,040**
Harmattan	1,280	**0**
Pouce Coupe	0	**1,280**
Total	22,280	**10,240**

RESERVES REVIEW

In total Accrete increased proved plus probable reserves to 9,797 mboe at the end of 2006 which equates to an 11.7 percent increase from the 8,770 mboe at December, 2005.

The drilling program added 7.5 bcf of natural gas to bring Accrete's proved plus probable natural gas reserves to 34.3 bcf, down slightly from 34.7 bcf at December 31, 2005. Proved plus probable oil and natural gas liquids reserves increased to 4,076 mbbls from 2,992 mbbls. Other highlights of Accrete's 2006 year-end reserves include the following:

- Total proved reserve additions (before revisions) of 2.57 MM boe replaced production of 914 mboe.
- Proved undeveloped reserves account for 5.8 percent of the total proved reserve base.
- Proved non-producing reserves account for 8.6 percent of the total proved reserve base.

Reserves at Harmattan were heavily risked by the independent reserve evaluators in keeping with the new National Instrument 51-101 standards with the reserve evaluator continuing to risk reserves due to the lack of production history.

A second opinion on the reserves determination of Harmattan was sought from another independent reserve evaluator. As this property is the single biggest component of the Company's value (83%), this second opinion, as done by AJM Petroleum Consultants ("AJM"), was a means of validating the Company's expectation of the property. The Report was created as per NI 51-101 and the COGE Handbook guidelines and resulted in 58.0 mboe (Proved) and 835 mboes (Proved & Probable) additional reserves for the Harmattan property. The difference in the P&P volumes reflects the recognition of the current maturity of the wells and the expected long term performance. In utilizing these additional values, the Company's reserves would become 7059.2 mboe Proven and 10658 mboe Proven & Probable. This would have a corresponding effect on the Company's F&D costs whereby the values would be reduced by the inclusion of the additional volumes recognized by the AJM report (approximately $4.00/BOE).

The above reserves, after production is considered, results in total additions for the year of 2.83 mmboe's (3.67 mmboe's AJM adjusted). This results in Finding and Development (F&D) costs as outlined in the Table below.

	Total Proved		Total Proved & Probable	
	GLJ	AJM Adjusted	GLJ	AJM Adjusted
Reserve Additions (mboe's)	2,579	2,637	2,835	3,670
Capital ($MM)	51.27			
Future Dev Capital ($MM)	3.595	2.78	11.255	13.26
F&D W/O FDC ($/boe)	19.88	19.44	18.08	13.97
F&D W/ FDC ($/boe)	21.26	20.50	22.05	17.58

NOTE: AJM adjusted utilizes the changes as would be seen utilizing the AJM report combined with the GLJ report.

RECONCILIATION OF CHANGE IN RESERVES

Total Proved Reserves	Natural Gas (bcf)	Oil (mbbls)	Heavy Oil (mbbls)	NGLs (mbbls)	BOE (mboe)
December 31, 2005 Opening	23.29	0.9	0	1,968.9	5,852.0
Revisions	35	342.8	0	153.1	553.4
Drilling Discoveries	1.36	0	0	41.8	269.2
Drilling Extensions	5.13	162.2	0	477.8	1,494.6
Divestitures	(3.0)	0	0	(22.1)	(521.4)
Acquisitions	0.87	17.3	0	99.9	261.5
Production	(3.22)	(88.6)	0	(288.9)	(914.4)
December 31, 2006 Closing	24.78	434.6	0	2,430.5	6,994.9

Total Proved plus Probable Reserves	Natural Gas (bcf)	Oil (mbbls)	Heavy Oil (mbbls)	NGLs (mbbls)	BOE (mboe)
December 31, 2005 Opening	34.67	1.6	0	2,990.3	8770
Revisions	(0.6)	510.5	0	52.4	(463.6)
Drilling Discoveries	2.59	0	0	66.8	498.9
Drilling Extensions	4.94	313	0	407.6	1,543.5
Divestures	(5.14)	0	0	(37.6)	(894.1)
Acquisitions	1.08	23.1	0	125.9	329.2
Production	3.22	(88.6)	0	(288.9)	(914.4)
December 31, 2006 Closing	34.32	759.7	0	3,316.4	9,796.6

Under NI 51-101 reserves definitions, estimates are prepared such that the full proved plus probable reserves are the most likely scenario. The tables and comparisons in this report reflect current proved plus probable reserves versus previous proved plus probable reserves reported by Accrete as of December 31, 2006 year-end. Investors should also note that barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: one bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

2006 RESERVES SUMMARY

	Nat Gas Gross (bcf)	Nat Gas Net (bcf)	Light Oil Gross (mbbls)	Light Oil Net (mbbls)	Heavy Oil Gross (mbbls)	Heavy Oil Net (mbbls)	NGLs Gross (mbbls)	NGLs Net (mbbls)	Total Gross (mboe)	Net
Proved Producing	20.22	16.16	300	281	0	0	2155	1482	5992	4456
Proved Non Producing	2.57	1.97	21	18	0	0	151	112	600	459
Proved Undeveloped	0.99	0.66	114	83	0	0	124	84	403	277
Total Proved	24.78	18.79	435	382	0	0	2,430	1,678	6,995	5,192
Total Probable	9.54	7.42	325	263	0	0	886	642	2,802	2,124
Total Proved & Probable	34.32	26.21	760	645	0	0	3,316	2,302	9,797	7,315

Gross reserves are the total of the Company's working interest plus royalty interests owned by others. Net reserves are gross reserves net of royalty interests owned by others.

NET PRESENT VALUE OF RESERVES (BEFORE TAX)

($ thousands)	Undiscounted	PV5	PV8	PV10	PV12
Proved Producing	157,261	120,965	106,535	98,821	92,248
Proved Non Producing	15,232	11,699	10,283	9,523	8,871
Proved Undeveloped	11,075	9,264	8,456	7,997	7,589
Total Proved	183,568	141,927	125,274	116,341	108,709
Total Probable	76,278	47,345	37,885	33,255	29,532
Total Proved + Probable	259,846	189,273	163,159	149,596	138,241

PRICE FORECAST

The reserve values on the previous page are based on the table of prices below. Prices at each property were adjusted for quality, heating content and transportation. Oil prices are the equivalent price of sweet light crude landed in Edmonton to that of West Texas Intermediate crude (WTI) in Cushing, Oklahoma after adjustments for transportation and the prevailing Canadian dollar exchange rate. Gas prices are based on the type of contract applicable. The NGL price was established for each property based on the gas stream recovered at the plant and wellhead for that property.

GLJ Petroleum Consultants Ltd. Price Forecast Effective January 1, 2007

	Oil	Gas (AECO-C)	Pentanes +	Propane	Butane
	$Cdn/bbl	$Cdn/mmbtu	$Cdn/bbl	$Cdn/bbl	$Cdn/bbl
2007	70.25	7.20	71.75	45.00	56.25
2008	68.00	7.45	69.25	43.50	50.25
2009	65.75	7.75	67.00	42.00	48.75
2010	64.50	7.80	65.75	41.25	47.75
2011	64.50	7.85	65.75	41.25	47.75
2012	65.00	8.15	66.25	41.50	48.00
2013	66.25	8.30	67.50	42.50	49.00
2014	67.75	8.50	69.00	43.25	50.25
2015	69.00	8.70	70.50	44.25	51.00
2016	70.50	8.90	72.00	45.00	52.25
2017	71.75	9.10	73.25	46.00	53.00
2018+	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2/yr

FINDING AND DEVELOPMENT COSTS

Based on a capital expenditure program of $54.86 million for total Proved and $62.52 million for Proved and Probable, which includes future development costs, the Company's average finding and development costs for gross proven reserves are $21.26 per boe and $22.05 per boe for gross proven plus probable reserves.

	Proven (mboe)	Proven + Probable (mboe)
Opening Balance on December 31, 2005	5,852.0	8,770.0
Production in 2006	914.4	914.4
Divestment	521.4	894.1
Remaining Reserves on January 1, 2006	4,416.2	6,961.5
Actual Reserves on January 1, 2006	6,994.8	9,796.6
Reserve Additions	2,578.6	2,835.2
Finding and Development Cost	21.26 $/boe	22.05 $/boe


STREET
CRED

Management's Discussion and Analysis

The following discussion and analysis was prepared on March 19, 2007 and is management's assessment of Accrete's historical financial and operating results and should be read in conjunction with the audited financial statements and related notes for the years ended, December 31, 2006 and 2005.

The financial data presented has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The reporting and measurement currency is the Canadian dollar.

Additional information may be found on the Company's website at www.accrete-energy.com and on the SEDAR website at www.sedar.ca.

Accrete was established on June 1, 2004 and is a Calgary based, oil and natural gas focused exploitation and development company that operates exclusively in Alberta.

The Company has production in the Harmattan, Edson, Claresholm and Pouce Coupe areas of Alberta. It has developed a focused inventory of drilling prospects at Harmattan, Claresholm, Edson, Saxon and Pouce Coupe.

Accrete's shares trade on the Toronto Stock Exchange ("TSX") under the symbol GZ.

BUSINESS ENVIRONMENT

Apart from a spike in pricing during a short lived summer heat wave, moderate temperatures prevailed during 2006. The hurricane season was mostly a non-event in North America in 2006. Consequently, fears that supply would significantly outstrip demand caused the weighted average AECO NGX next day index prices to decline from a high of $8.10/GJ in January to a low of $4.66/GJ in September. Prices rose with a cold snap in November to average $7.41/GJ and settled back to average $6.57 for December as the colder weather abated.

On the oil front, supply concerns brought about by geopolitical conditions overseas caused Edmonton Par price for oil to increase to a peak of $85.47/bbl in July before retreating to $71.18/bbl in September as those concerns eased.

Operating and finding and on-stream costs crept upwards as the market prices of goods and services used in the industry increased.

FINANCIAL INFORMATION

	Total Revenue ($ thousands)	Net Income ($ thousands)	Net Income (Loss) Basic $/Share	Net Income Diluted $/Share
2006				
First Quarter	9,821	1,584	0.10	0.10
Second Quarter	9,182	1,390	0.09	0.08
Third Quarter	9,583	743	0.05	0.05
Fourth Quarter	10,736	257	0.02	0.01
Total	39,322	3,974	0.26	0.24
2005				
First Quarter	3,633	707	0.05	0.05
Second Quarter	2,954	(818)	(0.06)	-
Third Quarter	6,058	850	0.06	0.05
Fourth Quarter	13,200	2,546	0.17	0.16
Total	25,845	3,285	0.23	0.21

Production for the fourth quarter 2006 averaged 2,890 boe/d. This increase was attributable to drilling in the period and the tie in of wells drilled earlier in the year. The increase would have been larger had the Company not shut-in wells in the Harmattan area in order to complete additional zones. This recompletion program continued into the first quarter of 2007.

Fourth quarter revenue, however, was negatively impacted by the fact that prices that were received for petroleum and natural gas sales in 2006 were significantly less than in 2005. Fourth quarter natural gas prices averaged $11.70 per mcf in 2005 while only averaging $7.18 per mcf in 2006. The average price received for oil in the fourth quarter 2005 was $69.13 as opposed to $53.86 in 2006. Natural gas liquids prices averaged $46.75 in 2005 and $31.94 in 2006.

In spite of the Company's best efforts to control costs, the shortage of oilfield supplies and services led to an increase in field operating costs from $4.88 per bbl equivalent in 2005 to $5.84 per bbl equivalent in 2006.

As a result of lower product prices and increased field operating costs, field netbacks for the fourth quarter decreased from $40.76 in 2005 to $26.50 in 2006.

Increased volumes, as noted above, partially offset the negative impact of lower product prices and higher costs.

General and administrative expenses were higher in the fourth quarter of 2006 than in 2005 because of increased staffing levels and lower recoveries from charges to participants on capital projects.

The combination of lower prices, increased costs and increased general and administrative expenses led to a decrease in the corporate netback from fourth quarter production from $35.19 per bbl in 2005 to $20.19 in 2006.

Adjustments that were made in the fourth quarter 2006 to the Company's tax provision, further contributed to the decrease in net income.

During the fourth quarter 2006 the Company drilled 4 wells (2.8 net) comprising 1 (0.54 net) oil wells, 2 (1.3 net) gas wells and 1 (1 net) dry hole. A success rate of 75% was achieved.

During the twelve months ended December 31, 2006, the Company has drilled a total of 23 wells (16.2 net), comprising of 10 (7.5 net) oil wells, 8 (5.2 net) gas wells and 5 (3.5 net) dry holes.

The Company estimates that at December 31, 2006 that behind pipe are 484 net barrels of oil equivalent per day. This is comprised of 176 barrels at Harmattan, 83 barrels at Saxon, 50 barrels at Claresholm and 175 barrels at Pouce Coupe.

OPERATIONAL ACTIVITIES

PRODUCTION

	3 Months Ended December 31, 2006	3 Months Ended December 31, 2005	12 Months Ended December 31, 2006	12 Months Ended December 31, 2005
Oil (bbl/d)	**220**	224	**192**	123
NGL (bbl/d)	**960**	523	**796**	325
Total Oil/NGL (bbl/d)	**1,180**	747	**988**	448
Gas (mcf/d)	**10,265**	8,810	**9,310**	4,966
Total (boe/d)	**2,890**	2,216	**2,540**	1,276

Natural Gas Production (mcf/d)	3 Months Ended December 31, 2006	3 Months Ended December 31, 2005	12 Months Ended December 31, 2006	12 Months Ended December 31, 2005
Area				
Atlee-Buffalo	**26**	43	**26**	79
Boltan	**-**	644	**153**	528
Claresholm	**2,653**	3,486	**3,186**	1,389
Harmattan	**7,206**	4,637	**5,849**	2,970
Edson	**380**	-	**96**	-
Total	**10,265**	8,810	**9,310**	4,966

Crude Oil Sales (bbl/d)	3 Months Ended December 31, 2006	3 Months Ended December 31, 2005	12 Months Ended December 31, 2006	12 Months Ended December 31, 2005
Area				
Atlee-Buffalo	-	-	-	-
Boltan	-	-	-	-
Claresholm	-	33	-	10
Harmattan	**214**	191	**191**	113
Edson	**6**	-	**1**	-
Total	**220**	224	**192**	123

Natural Gas Liquids Sales (bbl/d)	3 Months Ended December 31, 2006	3 Months Ended December 31, 2005	12 Months Ended December 31, 2006	12 Months Ended December 31, 2005
Area				
Atlee-Buffalo	-	-	-	-
Boltan	**1**	2	**1**	3
Claresholm	**10**	23	**38**	8
Harmattan	**941**	498	**755**	314
Edson	**8**	-	**2**	-
Total	**960**	523	**796**	325

The increase in production levels are a result of the Company's drilling activity offset in part by natural declines, the loss of production resulting from the sale of the Boltan property and the shut-in of certain Harmattan wells to facilitate recompletion of additional zones.

PRODUCT PRICES

Natural Gas Prices ($/mcf)	3 Months Ended December 31, 2006	3 Months Ended December 31, 2005	12 Months Ended December 31, 2006	12 Months Ended December 31, 2005
Area				
Atlee-Buffalo	**5.65**	10.82	**6.78**	7.82
Boltan	-	11.26	**7.89**	8.81
Claresholm	**7.60**	12.37	**7.38**	11.18
Harmattan	**6.99**	11.26	**6.56**	9.51
Edson	**7.83**	-	**7.83**	-
Average Price	**7.18**	11.70	**6.88**	9.87

Crude Oil Sales Prices ($/bbl)	**3 Months Ended December 31, 2006**	3 Months Ended December 31, 2005	**12 Months Ended December 31, 2006**	12 Months Ended December 31, 2005
Area				
Atlee-Buffalo	**-**	-	**-**	-
Boltan	**-**	-	**-**	-
Claresholm	**-**	68.52	**-**	69.86
Harmattan	**53.74**	69.24	**69.57**	70.26
Edson	**58.87**	-	**58.87**	-
Average Price	**53.86**	69.13	**69.49**	70.23

Natural Gas Liquids (NGL) Sales Prices ($/bbl)	**3 Months Ended December 31, 2006**	3 Months Ended December 31, 2005	**12 Months Ended December 31, 2006**	12 Months Ended December 31, 2005
Area				
Atlee-Buffalo	**-**	-	**-**	-
Boltan	**48.13**	59.46	**55.34**	62.13
Claresholm	**21.54**	69.38	**69.10**	71.59
Harmattan	**31.87**	45.63	**35.30**	38.42
Edson	**48.41**	-	**48.41**	-
Average Price	**31.94**	46.75	**36.98**	39.50

The Company has not entered into any hedging arrangements with respect to the sale of its production in 2005 or 2006.

Subsequent to year-end, the Company entered into the following contracts:

Type	Amount	Term	Price ($/GJ)	Type
Collar	2,000 GJ/d	February 1 – October 31, 2007	$5.50 - $8.25 at AECO	Financial
Collar	2,000 GJ/d	March 1 – October 31, 2007	$5.50 – 9.13 at AECO	Financial

Natural gas prices rose during 2005 reaching peak levels by the end of the year. Prices declined from that point during 2006 and aside from a small rally due to a heat wave in August, prices slid downwards to a low in September. A cold snap in November caused prices to rise sharply but they tailed off about 10% in December as warmer weather was forecast.

Normally Claresholm gas commands a higher price because it includes ethanes that give it a higher heating content. The Boltan property was sold early in the second quarter when pricing was higher than it was for the remainder of the period.

The trend set by world oil prices is reflected in the crude oil price realized by Accrete.

At Harmattan, NGLs comprise a considerable portion of ethanes which are relatively low priced.

REVENUE TOTAL SALES

($ thousands)	3 Months Ended December 31, 2006	3 Months Ended December 31, 2005	12 Months Ended December 31, 2006	12 Months Ended December 31, 2005
Oil	**1,089**	1,427	**4,877**	3,160
NGL	**2,820**	2,259	**10,746**	4,700
Gas	**6,778**	9,481	**23,363**	17,898
Processing	**49**	33	**336**	87
Total	**10,736**	13,200	**39,322**	25,845

NATURAL GAS SALES REVENUE

($ thousands)	3 Months Ended December 31, 2006	3 Months Ended December 31, 2005	12 Months Ended December 31, 2006	12 Months Ended December 31, 2005
Area				
Atlee-Buffalo	**13**	43	**64**	227
Boltan	**-**	667	**439**	1,697
Claresholm	**1,856**	3,969	**8,584**	5,667
Harmattan	**4,636**	4,802	**14,003**	10,307
Edson	**273**	-	**273**	-
Total	**6,778**	9,481	**23,363**	17,898

CRUDE OIL SALES REVENUE

($ thousands)	3 Months Ended December 31, 2006	3 Months Ended December 31, 2005	12 Months Ended December 31, 2006	12 Months Ended December 31, 2005
Area				
Atlee-Buffalo	**-**	-	**-**	-
Boltan	**-**	-	**-**	-
Claresholm	**-**	213	**-**	249
Harmattan	**1,059**	1,214	**4,848**	2,911
Edson	**30**	-	**29**	-
Total	**1,089**	1,427	**4,877**	3,160

NATURAL GAS LIQUIDS (NGL) SALES REVENUE

($ thousands)	3 Months Ended December 31, 2006	3 Months Ended December 31, 2005	12 Months Ended December 31, 2006	12 Months Ended December 31, 2005
Area				
Atlee-Buffalo	-	-	-	-
Boltan	**8**	25	**39**	80
Claresholm	**19**	141	**949**	211
Harmattan	**2,758**	2,093	**9,723**	4,409
Edson	**35**	-	**35**	-
	2,820	2,259	**10,746**	4,700

PROCESSING REVENUE

($ thousands)	3 Months Ended December 31, 2006	3 Months Ended December 31, 2005	12 Months Ended December 31, 2006	12 Months Ended December 31, 2005
Area				
Atlee-Buffalo	-	-	-	-
Boltan	-	-	-	-
Claresholm	-	(4)	-	17
Harmattan	**49**	37	**336**	70
Edson	-	-	-	-
Total	**49**	33	**336**	87

The increase in revenue occurred primarily because of the addition of production from new wells. These gains were offset in part by natural declines, the decline in commodity prices, the loss of production from the sale of the Boltan area, the shut-in of the Harmattan processing facility in September, as well as the intermittent shut-in of some Harmattan wells in order to complete additional zones.

Processing fees are charged to third parties utilizing Accrete facilities.

ROYALTIES

($ thousands)	3 Months Ended December 31, 2006		3 Months Ended December 31, 2005		12 Months Ended December 31, 2006		12 Months Ended December 31, 2005	
Area	Total $	Rate	Total $	Rate	Total $	Rate	Total $	Rate
Atlee-Buffalo	**1**	**6%**	5	11%	**9**	**15%**	36	18%
Boltan	**0**	**0%**	57	8%	**42**	**9%**	150	8%
Claresholm	**248**	**13%**	1,184	27%	**2,260**	**24%**	1,571	26%
Harmattan	**1,972**	**23%**	2,608	32%	**7,244**	**26%**	4,945	28%
Edson	**109**	**32%**	-	-	**109**	**32%**	-	-
Total	**2,330**	**22%**	3,854	29%	**9,664**	**26%**	6,702	26%

Crown royalties, net of Alberta Royalty Tax Credit, were $1,480,042 for the fourth quarter and $7,244,018 for the year ended December 31, 2006. Total gross overriding royalties were $757,933 and $2,041,946 respectively, and freehold royalties totaled $92,186 and $378,201 respectively. The Company had reached the maximum allowable ARTC early in the second quarter. From that point onward in 2006, no further credits were available. The apparent reduction in rates at Harmattan occurred because a greater proportion of freehold wells bearing a relatively lower royalty rate were put on stream.

Atlee Buffalo production is subject to low rates for shallow low productivity wells.

A deep gas crown royalty holiday was given to the Boltan production, subjecting that production only to gross overriding royalties.

PRODUCTION AND TRANSPORTATION EXPENSES

($ thousands except per boe information)	3 Months Ended December 31, 2006		3 Months Ended December 31, 2005		12 Months Ended December 31, 2006		12 Months Ended December 31, 2005	
Area	$	$/boe	$	$/boe	$	$/boe	$	$/boe
Atlee-Buffalo	**7**	**16.73**	4	5.84	**24**	**14.95**	57	11.74
Boltan	**9**	**-**	129	12.55	**197**	**19.76**	268	8.03
Claresholm	**346**	**8.34**	273	4.65	**1,329**	**6.40**	413	4.54
Harmattan	**1,087**	**5.01**	590	4.39	**3,435**	**4.90**	1,616	4.80
Edson	**104**	**14.79**	-	-	**104**	**14.79**	-	-
Total	**1,553**	**5.84**	996	4.88	**5,089**	**5.49**	2,354	5.05

Atlee Buffalo is a very small part of the overall operation and although operating costs are high, the effect on total expenses is minimal.

Claresholm and Edson costs reflect bulk purchases of supplies in the fourth quarter.

The industry as a whole experienced a shortage of oilfield supply and services with the increasing prices that resulted. Costs in general increased in spite of the Company's best efforts to manage them.

FIELD AND CORPORATE NETBACKS

FIELD NETBACK

($/boe) Area	3 Months Ended December 31, 2006	3 Months Ended December 31, 2005	12 Months Ended December 31, 2006	12 Months Ended December 31, 2005
Atlee-Buffalo	**15.07**	53.65	**19.72**	28.25
Boltan	-	49.98	**23.92**	40.93
Claresholm	**30.82**	49.13	**28.64**	45.77
Harmattan	**25.14**	36.79	**26.02**	33.10
Edson	**17.64**	-	**17.64**	-
Field Netback	**25.77**	40.76	**26.50**	35.83

Field netbacks reflect the effect of lower product prices for natural gas, increasing pressure on operating costs, offset in part by lower royalty rates.

CORPORATE NETBACK

($ thousands) Area	3 Months Ended December 31, 2006	3 Months Ended December 31, 2005	12 Months Ended December 31, 2006	12 Months Ended December 31, 2005
Field Netback	**6,851**	8,350	**24,569**	16,788
General and Administrative	**1,531**	1,163	**3,358**	2,879
Corporate Netback	**5,320**	7,187	**21,211**	13,909

Corporate netbacks decreased with the decrease in field netbacks as noted previously, as well as with increases in general and administrative expenses.

GENERAL AND ADMINISTRATIVE EXPENSE

($ thousands)	3 Months Ended December 31, 2006	3 Months Ended December 31, 2005	12 Months Ended December 31, 2006	12 Months Ended December 31, 2005
Salary & Benefits	**1,329**	1,141	**2,853**	2,524
General Office Expenses	**381**	368	**1,425**	1,248
	1,710	1,509	**4,278**	3,772
Recoveries	**(179)**	(346)	**(920)**	(893)
Total	**1,531**	1,163	**3,358**	2,879

The Company has increased staffing levels over the past year and now employs 17 people.

Office expenses increased with inflationary pressure.

General and administrative expenses are recovered through billings to participants in Company operated projects in accordance with standard industry practice. The increase in recoveries year over year relates to the increase in capital expended on capital projects. The decrease in the fourth quarter recovery amounts relates to the fewer plant and facility costs in 2006 compared to 2005, and the associated recoveries with that type of capital expenditure.

INTEREST EXPENSE

At December 31, 2006, Accrete's bank indebtedness was $36.4 million. Accrete utilized its operating line of credit and cash flow to fund its 2006 capital program. As a result, interest expense of $578,000 was incurred in the fourth quarter of 2006 and $1,559,000 was incurred for the twelve months ended December 31, 2006.

STOCK-BASED COMPENSATION

Stock-based compensation is accounted for using the fair value method. Under the fair value method of accounting, this compensation expense is recorded in the earnings statement over the vesting period. In the second quarter of 2005, Accrete recognized options previously disclosed but deemed to be not granted until the Annual General Meeting was held on May 5, 2005.

DEPLETION DEPRECIATION & ACCRETION

Depletion, depreciation and accretion of the asset retirement obligation for the three and twelve month period ended December 31, 2006 totaled $3,610,000 or $13.58/boe, and $12,966,000 or $13.99/boe respectively. Costs of $4,045,000 relating to unproved properties have been excluded from costs subject to depletion for the 3 month period ended December 31, 2006. This included the costs of undeveloped land such as that at Edson, Saxon and Pouce Coupe that has been purchased at land sales for future exploitation.

INCOME TAXES

The Company is not liable for any cash taxes. Adjustments were made in the fourth quarter 2006, to reflect the rescheduling of the reversals of timing differences and to true up the Company's future taxes for tax returns filed.

CASH FLOW

Cash flow from operations for the three months ended December 31, 2006 was $4,742,000 ($0.31 per share) and $19,652,000 ($1.28 per share) for the twelve months ended December 31, 2006.

CAPITAL EXPENDITURES

Capital expenditures for the twelve months ending December 31, 2006:

($ thousands)	12 Months Ended December 31, 2006 $	3 Months Ended December 31, 2006 $	3 Months Ended September 30, 2006 $	3 Months Ended June 30, 2006 $	3 Months Ended March 31, 2006 $
Drilling and Completions	37,578	5,577	13,439	10,109	8,453
Equipping and Tie-Ins	3,392	499	733	1,269	891
Land	4,253	1,362	1,457	3	1,431
Property Acquisitions and Dispositions (net)	(3,300)	-	6,043	(9,343)	-
Office Equipment	4	1	-	-	3
Total Cash Expenditures	41,927	7,439	21,672	2,038	10,778
Allowance for future restoration expenditures	352	41	103	72	136
Total	42,279	7,480	21,775	2,110	10,914

During the fourth quarter the Company drilled 4 wells (2.8 net), comprising 1(.54 net) oil well, 2(1.3 net) gas wells and 1 (1 net) dry hole. A success rate of 75% was achieved. For the year, the Company has drilled 23 wells (16.2 net), comprising of 10 (7.5 net) oil wells, 8 (5.2 net) gas wells and 5 (3.5 net) dry holes.

The Company completed the expansion of its compression facilities at Harmattan.

The Company's Boltan area assets were sold early in the second quarter because it no longer met the Company's long term objectives.

LIQUIDITY AND CAPITAL RESOURCES

2006 Exploration and development program funding	$ (thousands)
Cash, Beginning of Year	-
Cash flow from operations	19,652
Change in non-cash working capital	(9,442)
Increase in Bank Debt	21,825
Funds from Stock Issuance	9,892
Cash, end of period	-
Net capital expenditures	41,927

During the fourth quarter, the Company issued 1,248,300 common flow-through shares at an issuance price of $8.40 per share for net proceeds of $9,982,000. The Company is committed to spend $10,486,000 on CEE expenditures to fulfill its flow-through obligation. Qualifying expenditures will primarily be made and renounced in the first quarter of 2007.

Accrete intends to fund its capital expenditure program from internally generated cash flow, debt, and new equity on favorable terms.

At December 31, 2006 the Company's credit facility comprised of a Revolving Operating Demand Loan facility with a credit limit of $50,000,000.

This facility bears interest at bank prime plus one eighth percent and has no specific terms of repayment except for the bank's right of demand and periodic review.

The capital intensive nature of the Company's activities may create a negative working capital position from time to time and, in fact, at December 31, 2006, negative working capital, including bank debt was $40,196,000.

Success in its focus areas means that additional funds may be raised through additional bank debt or additional share issuances or both to expedite or expand the drilling program.

Commodity prices and production volumes have a large impact on the ability of the Company to generate adequate cash flow.
A prolonged decrease in commodity prices would negatively affect cash flow from operations and would also likely result in a reduction in the amount of cash flow and bank loan available for investment. This condition may also affect the availability of funds through the public equity market which may be accessed if funds are available on favourable terms.

See the caption entitled "Risks" for further items that could affect liquidity.

OUTLOOK

The Company will maintain sufficient activity to stabilize production at Harmattan and Claresholm and will utilize the cash flow generated to develop its inventory of prospects at Edson, Pouce Coupe and Saxon.

The Company will continue to explore in new areas so as to provide future development opportunities.

CRITICAL ACCOUNTING ESTIMATES

OIL AND GAS ACCOUNTING

The Company follows the full-cost method of accounting whereby all costs related to the acquisition, exploration and development of petroleum and natural gas properties, net of government incentives, are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, costs of drilling both productive and non-productive wells and related plant and production equipment costs.

Proceeds on disposition of petroleum and natural gas properties are accounted for as a reduction of capitalized costs with no gains or losses recognized unless such disposition results in a change of 20% or more in the depletion rate.

Capitalized costs, together with estimated future capital costs associated with proved reserves are depleted and depreciated using the unit-of-production method based on estimated gross proved reserves of petroleum and natural gas as determined by independent engineers. For purposes of this calculation, reserves and production are converted to equivalent units of oil based on the relative energy content of six thousand cubic feet of natural gas to one barrel of oil. Unproved properties are excluded from the depletion base until it is determined whether proved reserves are attributable to the properties or impairment occurs.

The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the "ceiling test").

Oil and gas assets are evaluated at least annually to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying value of the oil and gas assets.
If the carrying value of the oil and gas assets is not assessed to be recoverable, an impairment loss will be recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost or market value unproved properties. The cash flows are estimated using future product prices and costs and are discounted using the risk free rate.

The Company records a liability for the fair value of legal obligations associated with the retirement of long-lived assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability, there is a corresponding increase in the carrying amount of the related asset known as the asset retirement cost which is depleted using the unit-of-production method. The liability is adjusted in each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows.

INCOME TAXES

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after a considerable lapse of time. Accordingly, the actual income tax liability may differ significantly from the liability estimated or recorded.

OTHER ESTIMATES

The accrual method of accounting requires management to incorporate certain estimates, including estimates of revenues, royalties and production costs at a specific reporting date but for which actual revenues and costs have not yet been received; and estimates on capital projects which are in progress or recently completed where actual costs have not been received at a specific reporting date.

The Company ensures that the individuals with the most knowledge of the activity are responsible for the estimate. These estimates are then reviewed for reasonableness and past estimates are compared to actual results in order to make informed decisions on future estimates.

STOCK BASED COMPENSATION

The Company has not incorporated an estimated forfeiture rate for stock options that will not vest and will account for actual forfeitures as they occur. The fair value of each stock option is determined at each grant date using the Black-Scholes model.

RISKS

Accrete, in common with other companies participating in the oil and gas business in Canada, is exposed to a number of business risks. These risks can be categorized as operational, financial and regulatory, with some beyond the Company's control.

Operational risks include finding and developing oil and natural gas reserves on an economic basis, reservoir production performance, commodity marketing risk and the risk that employees and contract services can be hired and retained on a cost effective basis.

Accrete has mitigated these risks to the extent possible by employing a team of highly qualified professionals, providing a compensation scheme that will reward above average performance and by maintaining long term relationships with its suppliers.

Accrete also maintains an insurance program that is consistent with industry practice that should protect against the loss of assets through fire, blowout, pollution and other untoward events and the resultant business interruption.

Accrete maintains an inventory of prospects that are within the scope of the Company's key areas and are strategically diverse so as to minimize the Company's exposure to drilling risk. Furthermore, Accrete employs the latest technological methods in that quest.

Commodity prices and production volumes have a large impact on the ability for the Company to generate adequate cash flow to meet its obligations. A prolonged decrease in commodity prices would negatively affect cash flow from operations and would also likely result in a reduction in the amount of bank loan available. If the capital expenditure program does not result in sufficient additional reserves and/or production it would likely have a negative impact on the Company's liquidity. A lack of, or restricted access to natural gas processing facilities would have a similar effect. A prolonged decrease in commodity prices would also likely affect the availability of funds through the public equity market.

Financial risks include commodity prices, and to some extent, interest rates and the Canadian/US exchange rate. The Company may employ financial instruments, when prudent, to lessen the effects of such risks.

EXPLORATION, DEVELOPMENT AND PRODUCTION RISKS

Oil and natural gas exploration involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on future exploration by Accrete will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The long-term commercial success of Accrete depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that Accrete will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Accrete may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated, and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on Accrete and its future results of operations, liquidity and financial condition.

INCOME TAXES

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has implemented a system of internal controls that it believes adequately protects the assets of the Company and is appropriate for the nature of its business and the size of its operations. These internal controls include disclosure controls and procedures designed to ensure that information required to be disclosed by the Company is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

The CEO and CFO have evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Multilateral Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings) of the Canadian Securities Administrators and have concluded based on their evaluation
that as of December 31, 2006, that such controls and procedures are effective to provide reasonable assurance that material information related to the Company is made known to them.

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian Generally Accepted Accounting Principles.

The Chief Executive Officer and Chief Financial Officer of the Company have conducted an evaluation which has identified an inherent weakness in the system of internal control over financial reporting that is due to the limited number of staff at the Company. Namely, it is not economically feasible to achieve complete segregation of duties. As a result of this weakness, there is no guarantee that a material misstatement would not be prevented or detected. Management and Board review are utilized to mitigate the risk of material misstatement in financial reporting to ensure internal controls remain effective. Additional accounting staff will be added as the Company grows and this is expected to remediate the weakness.

It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures and internal controls over financial reporting provide a reasonable level of assurance that the system of internal controls are effective, they do not guarantee that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

COMMITMENTS

Pursuant to flow-through share offerings during the year ended December 31, 2006, the Company is committed to incur a total of $10,486,000 in qualifying expenditures by December 31, 2008.

The Company has entered into various commitments related to the leasing of office premises and office equipment. The payments due under such leases are as follows:

Contractual obligations ($ thousands)	2007 $	2008 $	2009 $	2010 $	2011 $	Thereafter $
Office Premises	189	47	-	-	-	-
Office equipment	9	2	1	-	-	-
	198	49	1	-	-	-

CHANGE IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

The following standards regarding financial instruments are effective for January 1, 2007; 3855 - "Financial Instruments - Recognition and Measurement", 3861 Financial Instruments - Disclosure and Presentation, 1530 - "Comprehensive Income", and 3865 - "Hedges". The standards require all financial instruments other than held-to-maturity investments, loans and receivables, to be included on a company's balance sheet at their fair value. Held-to-maturity investments, loans and receivables would be measured at their amortized cost. The standards create a new statement for comprehensive income that will include changes in the fair value of certain derivative financial instruments. As a result of these new standards, the Company expects not to elect to use hedge accounting beginning January 1, 2007 and will mark-to-market its natural gas derivative contracts under its risk management program. The accounting for hedging relationships for prior fiscal years is not retroactively changed, therefore, no restatement of prior periods is expected as a result of these new standards.

TRANSACTIONS WITH RELATED PARTIES

The Corporation has not entered into any transactions with related parties, nor did it have any balances outstanding with related parties at year end.

OFF BALANCE SHEET ARRANGEMENTS

The Corporation has not entered into any off-balance sheet transactions.

NON GAAP MEASURES

The forgoing contains the term "cash flow from operations" and "netbacks" which should not be considered an alternative to, or more meaningful than cash flow from operating activities as determined in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") as an indicator of the Company's performance. Accrete's definition of cash flow from operations and/or netbacks may not be comparable to that reported by other companies.

The Company evaluates its performance based on net earnings, netbacks and cash flow. The Company considers cash flow a key measure as it illustrates the Company's ability to meet obligations necessary to repay debt and fund future growth through capital investment. Cash flow per share is presented in this discussion using the weighted average shares outstanding in a manner consistent with that used to calculate earnings per share.

The following table reconciles cash flow from operating activities, the most comparable GAAP measure to cash flow used in this MD&A:

$ Thousands	Year Ended December 31, 2006	December 31, 2005
Cash flow provided by operating activities	**17,527**	12,671
Net changes in non-cash working capital	**2,125**	865
Cash flow	**19,652**	13,536

The following table reconciles field and corporate netbacks to income before taxes the most comparable GAAP measure:

$ Thousands	Year Ended December 31, 2006	December 31, 2005
Income before income taxes	**5,865**	5,839
Depletion, depreciation and accretion	**12,966**	5,511
Stock based compensation cost	**821**	2,236
Interest expense	**1,559**	323
Corporate netback	**21,211**	13,909
General and administrative expenses	**3,358**	2,879
Field netback	**24,569**	16,788

The reader is cautioned that the use of the term boe's ("barrels of oil equivalent") may be misleading particularly when used in isolation. A boe conversion of 6 mcf to 1 boe may not represent a value equivalency at the wellhead.

As the determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions which have been made using careful judgement. In the opinion of management, the unaudited interim financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized in the financial statements.

DISCLAIMERS

Some of the statements contained herein including, without limitation, financial and business prospects and financial outlooks may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances.

Forward-looking statements and other information contained herein concerning the oil and gas industry and Accrete's general expectations concerning this industry are based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which Accrete believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While Accrete is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.


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MANAGEMENT'S REPORT

Management, in accordance with Canadian generally accepted accounting principles, has prepared the accompanying financial statements of Accrete Energy Inc. Financial and operating information presented throughout this Annual Report is consistent with that shown in the financial statements.

Management is responsible for the integrity of the financial information. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

KPMG LLP was appointed by the Company's shareholders to conduct an audit of the financial statements so as to express an opinion on the financial statements. Their examination included a review and evaluation of the Company's internal control systems and included such test and procedures, as they considered necessary, to provide a reasonable assurance that the financial statements are presented fairly in accordance with Canadian generally accepted accounting principles.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee, with assistance from the Reserve Committee regarding the annual evaluation of our petroleum and natural gas reserves. The Audit Committee meets regularly with management and the independent auditors to ensure that management's responsibilities are properly discharged, to review the financial statements and recommend that the financial statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of the external auditors and reviews their fees. The external auditors have access to the Audit Committee without the presence of management.

Peter M. Salamon	Thomas R. Dalton
President and Chief Executive Officer	Vice President, Finance & Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Accrete Energy Inc. as at December 31, 2006 and 2005 and the statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP.

Chartered Accountants

Calgary, Canada

March 19, 2007

ACCRETE ENERGY INC. BALANCE SHEETS

$ Thousands	December 31,2006 $	December 31,2005 $
ASSETS		
Current assets		
Accounts receivable	**7,421**	8,221
Prepaid expenses	**131**	64
	7,552	8,285
Property and equipment (note 2)	**95,506**	66,083
	103,058	74,368
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**11,325**	21,549
Bank indebtedness (note 3)	**36,423**	14,598
	47,748	36,147
Asset retirement obligation (note 5)	**1,663**	1,152
Future income tax (note 6)	**4,773**	3,091
	54,184	40,390
SHAREHOLDERS' EQUITY		
Share capital (note 4)	**39,718**	29,618
Contributed surplus (note 4)	**3,414**	2,593
Retained Earnings	**5,742**	1,767
	48,874	33,978
	103,058	74,368

See accompanying notes to financial statements.

Approved by the Board of Directors:

P. Salamon

B. Mellum

ACCRETE ENERGY INC. STATEMENTS OF INCOME AND RETAINED EARNINGS

($ Thousands)	Year Ended December 31,2006 $	Year Ended December 31, 2005 $
Revenue		
Petroleum and natural gas revenue	**39,322**	25,845
Royalties (net of Alberta Royalty Tax Credit)	**(9,664)**	(6,702)
	29,658	19,143
Expenses		
Production expenses	**4,724**	2,163
Transportation expenses	**365**	192
General and administrative, net of recoveries	**3,358**	2,879
Interest Expense	**1,559**	323
Stock based compensation cost (note 4)	**821**	2,236
Depletion, depreciation and accretion	**12,966**	5,511
	23,793	13,304
Income before income taxes	**5,865**	5,839
Future income taxes (note 6)	**(1,890)**	(2,553)
Net income for the period	**3,975**	3,286
Retained Earnings (Deficit) – beginning of year	**1,767**	(1,519)
Retained Earnings – end of year	**5,742**	1,767
Weighted average number of shares (note 4)	**15,326**	14,329
Income per share:		
Basic	**0.26**	0.23
Diluted	**0.24**	0.21

See accompanying notes to financial statements.

ACCRETE ENERGY INC. STATEMENTS OF CASH FLOWS

($ Thousands)	Year Ended December 31, 2006	Year Ended December 31, 2005
Cash provided by (used in):	$	$
Operating Activities		
Net income for the period	**3,975**	3,286
Items not affecting cash:		
Stock based compensation cost	**821**	2,236
Future income taxes	**1,890**	2,553
Depletion, depreciation and accretion	**12,966**	5,461
	19,652	13,536
Change in non-cash working capital (note 8)	**(2,125)**	(865)
	17,527	12,671
Investing Activities		
Property and equipment additions	**(45,227)**	(49,318)
Property Acquisition and Disposition	**3,300**	
Change in non-cash working capital (note 8)	**(7,317)**	7,948
	(49,244)	(41,370)
Financing Activities		
Bank Debt	**21,825**	14,598
Share Issue Expense, net of tax	**(668)**	
Issue of capital stock	**10,560**	13,561
	31,717	28,159
Increase (decrease) in cash	**-**	(540)
Cash – beginning of year	**-**	540
Cash – end of year	**-**	
Supplemental Information : Interest Paid	**1,559**	323

See accompanying notes to financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

As the determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions which have been made using careful judgement. In the opinion of management, these financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Accrete Energy Inc. ("Accrete") commenced operations on June 1, 2004 when it acquired assets under a plan of arrangement entered into by Provident Energy Trust, Provident Energy Ltd., Olympia Energy Inc. and Accrete Energy Inc.

OIL AND GAS OPERATIONS

Revenues from the sale of petroleum and natural gas are recorded when title passes to an external party.

The Company follows the full-cost method of accounting whereby all costs related to the acquisition, exploration and development of petroleum and natural gas properties, net of government incentives, are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, costs of drilling both productive and non-productive wells and related plant and production equipment costs.

Proceeds on disposition of petroleum and natural gas properties are accounted for as a reduction of capitalized costs with no gains or losses recognized unless such disposition results in a change of 20% or more in the depletion rate.

Capitalized costs, together with estimated future capital costs associated with proved reserves are depleted and depreciated using the unit-of-production method based on estimated gross proved reserves of petroleum and natural gas as determined by independent engineers. For purposes of this calculation, reserves and production are converted to equivalent units of oil based on the relative energy content of six thousand cubic feet of natural gas to one barrel of oil. Unproved properties are excluded from the depletion base until it is determined whether proved reserves are attributable to the properties or impairment occurs.

Office furniture and fixtures are recorded at cost and are depreciated over their useful lives on a declining balance basis at 20% per annum.

The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the "ceiling test").

Oil and gas assets are evaluated at least annually to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying value of the oil and gas assets. If the carrying value of the oil and gas assets is not assessed to be recoverable, an impairment loss will be recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost or market value of unproved properties. The cash flows are estimated using expected future product prices and costs and are discounted using a risk-free rate of interest.

The Company records a liability for the fair value of legal obligations associated with the retirement of long-lived assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability, there is a corresponding increase in the carrying amount of the related asset, known as the asset retirement cost, which is depleted using the unit-of-production method. The liability is adjusted in each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows.

JOINT OPERATIONS

A significant portion of the Company's exploration and production activities are conducted jointly with others and the financial statements reflect only the Company's proportionate interest in such activities.

STOCK BASED COMPENSATION

The Company has an employee stock option plan. The compensation cost in respect of this plan is recognized in the financial statements using the fair market value method and the cost is recognized over the vesting period of the underlying security. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest and will account for actual forfeitures as they occur.

MEASUREMENT UNCERTAINTY

Amounts recorded for depreciation and depletion, the provision for asset retirement and abandonment costs and amounts used for ceiling test calculations are based on estimates of oil and natural gas reserves. The Company's reserve estimates are reviewed annually by an independent engineering firm. By their nature, these estimates of reserves and future cash flows are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

PER SHARE AMOUNTS

The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. This method assumes that proceeds received from the exercise of in-the-money stock options and other dilutive instruments are used to purchase common shares at the average market price during the year.

FLOW-THROUGH SHARES

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Future income tax liabilities and share capital are adjusted by the estimated cost of the renounced income tax deductions when the related flow-through expenditures are renounced to investors.

INCOME TAXES

The Company follows the asset and liability method of accounting for income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using the rates that are anticipated to be in effect in the periods that the temporary differences are expected to reverse.

FINANCIAL INSTRUMENTS

Financial instruments consist primarily of accounts receivable, prepaid expenses, accounts payable and accrued liabilities and bank debt. There are no significant differences between the carrying value of these instruments and their estimated fair value.

The Company may use financial instruments for non-trading purposes to manage fluctuations in commodity prices, as described in Note 7. The Company will elect to mark-to-market its financial contracts.

2. PROPERTY AND EQUIPMENT

($ thousands)	As At December 31, 2006 $	As at December 31, 2005 $
Petroleum and natural gas properties and equipment	**114,186**	71,909
Furniture, fixtures and other	**114**	110
	114,300	72,019
Less: Accumulated depletion and depreciation	**18,794**	5,936
	95,506	66,083

At December 31, 2006 costs of $4,044,889 ($1,440,000 at December 31, 2005) with respect to unproved properties have been excluded from costs subject to depletion. Direct salary costs related to geological and geophysical personnel in the amount of $172,000 ($361,000 in 2005) have been charged to petroleum and natural gas properties during the year. No other salary or overhead charges have been capitalized.

3. BANK INDEBTEDNESS

At December 31, 2006 the Company's credit facility comprises a revolving Operating Demand Loan facility with a credit limit of $50,000,000 that bears interest at bank prime plus one eighth percent.

This facility has no specific terms of repayment except for the bank's right of demand and periodic review and is secured by a general assignment of book debts, a $50,000,000 debenture with a first floating charge over all assets with a negative pledge and an undertaking to provide fixed charges on the Company's major producing reserves at the request of the bank.

4. SHARE CAPITAL

AUTHORIZED:

An unlimited number of common voting shares and an unlimited number of preferred shares issuable in series for which the directors may fix, among other things, the rights, privileges, restrictions, conditions, voting rights, rates, method of calculation and dates of payment of dividends and terms of redemption, purchase and conversion if any, and any other provisions.

Issued and outstanding:

Common Voting Shares	Number of Shares	Amount $
Issued upon transfer from Olympia Energy Inc.	4,263,936	4,263,936
Issued for oil and gas properties	469,000	469,000
Issued on private placement – flow-through shares	2,553,500	2,553,500
Issued on private placement	2,446,500	2,446,500
Issued on private placement	3,500,000	7,175,000
Share issuance costs (net of tax)		(313,431)
Balance, December 31, 2004	13,232,936	16,594,505
Tax effect of flow-through shares		(858,487)
Issued on private placement	2,000,000	14,500,000
Share issuance costs (net of tax)		(618,492)
Balance, December 31, 2005	15,232,936	29,617,526
Exercise of Stock Options	16,666	74,164
Issued on private placement – flow-through shares	1,248,300	10,485,720
Share issuance costs, net of tax		(459,787)
Balance, December 31, 2006	16,497,902	39,717,623

The tax benefits related to the $2,553,500 of flow-through shares issued in 2004 were renounced to flow-through shareholders and booked to the accounts in February 2005. Similarly, the Company is committed to spend $10,486,000 on CEE expenditures to fulfil its flow-through obligation issued in 2006. Qualifying expenditures will primarily be made and renounced in the first quarter of 2007.

The following table reconciles the common shares used in calculating net earnings per common share:

	December 31	
	2006	2005
Weighted average common voting shares outstanding - basic	**15,325,924**	14,328,826
Effect of dilutive stock options	**1,121,132**	1,144,074
Weighted average common shares outstanding - diluted	**16,447,056**	15,472,900

STOCK OPTIONS

Under the terms of the Accrete Energy Inc. 2004 Incentive Stock Option Plan, as amended, (the "plan"), directors, officers, employees and consultants (the "Participant(s)") are eligible to be granted options to purchase common shares. The plan provides for granting up to 1,926,394 common shares.

The maximum number of option shares that may be reserved for issuance to any one Participant under the plan cannot exceed 5% of the issued and outstanding common shares.

The exercise price under the plan is defined by the plan to be the closing price on the principal stock exchange on which the common shares are traded on the last business date preceding the date of grant or if the common shares did not trade on that date, the weighted average price for the five trading days preceding the date of grant.

The vesting of stock options is determined by the Board of Directors and the term, as also determined by the Board of Directors cannot exceed five years from the date of grant of such options.

A Participant's entitlement under the plan ceases upon ceasing to be a Participant. If such cessation is involuntary, then the vested and unvested options can be exercised for a period of ninety days after such date. Where a Participant is terminated for cause, the Participant may only exercise those options that have become vested. Where a Participant is terminated by the Company without cause, the Participant is entitled to exercise stock options that have vested during the notice period or in the event of compensation being paid in lieu of notice, for 21 days after ceasing to be a Participant.

Options granted under the plan are not assignable and no financial assistance is extended to optionees. The Board of Directors is empowered to amend the plan. Any amendment to the plan is subject to the receipt of necessary regulatory approvals and any amendment required by applicable law or regulatory policy to be approved by shareholders does not become effective until so approved.

The following table summarizes information about stock options outstanding at December 31, 2006:

Grant Price	Options Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable (Vested)	Weighted Average Exercise Price ($/Share)
$1.00	926,845	2.4 Years	926,845	1.00
$2.30	40,000	2.8 Years	26,667	2.30
$2.60	395,000	2.9 Years	263,333	2.60
$2.89	5,000	2.9 Years	3,333	2.89
$3.12	40,000	2.9 Years	26,667	3.12
$7.01	9,000	3.4 Years	3,000	7.01
$6.91	10,000	4.8 Years	0	6.91
	1,425,845	2.6 Years	1,249,845	1.63

Options Outstanding	
Balance, December 31, 2005	1,465,845
Issued during 2006	10,000
Exercised and Forfeited	(50,000)
Ending Balance, December 31, 2006	1,425,845

The options granted have a term of five years to expiry. All but the $1.00 stock options vest equally over a three year period commencing on the first anniversary of the date of grant. The $1.00 stock options vest equally over a three year term commencing with the date of grant.

During the year ended December 31, 2006, 10,000 options were granted with an exercise price of $6.91/share. An estimated fair value of $3.46/share was calculated for these options as at the date of grant using the Black-Scholes model.

The Company has accounted for its employee stock options granted using the fair value method. The fair value of all options granted to December 31, 2006 was estimated to be $3,687,293($2.59 per option granted). This value is charged to stock based compensation cost over the vesting period. A total of $158,483 (2005, $395,597) was charged in the fourth quarter and $821,427 (2005, $2,236,344) for the year ended December 31, 2006.

The assumptions used in calculating the fair value include a volatility factor ranging from 45% to 52%, a weighted average risk free interest rate of 3.7% to 4.5%, and a weighted average expected life of the options of 4 to 5 years.

Subsequent to year end, 50,000 options were granted with an exercise price of $5.26/share. These options vest over a three year period commencing January 17, 2008 and expire on January 15, 2012. An estimated fair value of $1.85/share was calculated for these options as at the date of grant using the Black-Scholes model.

CONTRIBUTED SURPLUS

($ thousands)	Year Ended December 31,	
	2006	2005
Balance, beginning of year	**2,593**	357
Stock Based Compensation	**821**	2,236
Balance, end of year	**3,414**	2,593

5. ASSET RETIREMENT OBLIGATION

Asset retirement obligation comprises:

($ thousands)	Year Ended December 31,	
	2006	2005
Balance, beginning of year	**1,152**	485
Liabilities incurred	**494**	595
Liabilities settled	**(44)**	-
Dispositions	**(47)**	-
Accretion expense	**108**	72
Balance, end of year	**1,663**	1,152

The total future asset retirement obligation was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows to settle the asset retirement obligation is approximately $3,207,945 (2005, $3,089,071) which will be incurred over the next twenty five years. A credit adjusted risk-free rate of 7% was used to calculate the fair value of the obligations.

6. INCOME TAXES

At December 31, 2006, the Company's exploration and development expenditures and undepreciated capital costs total $76,303,000. These costs may be carried forward indefinitely to reduce future taxable income.

The following reconciles the difference between income tax recorded and the expected income tax expense obtained by applying the expected income tax rate to earnings before taxes:

	Year Ended December 31,	
	2006	[illegible]
($ thousands)	**$**	[illegible]
Income/(Loss) before income taxes	**5,865**	5,839
Statutory Rate	**34.12%**	37.62%
Expected income tax recovery at the combined federal and provincial statutory rate	**2,001**	2,197
Crown royalties	**927**	1,406
Resource allowance	**(895)**	(1,070)
Alberta Royalty Tax Credits	**(60)**	(122)
Stock based compensation cost	**280**	841
True Up Prior Year Provision	**136**	
Attributed crown royalty income	**(71)**	(123)
Tax-rate adjustments	**(435)**	(313)
Other	**7**	9
Valuation allowance - reversed	**-**	(272)
Future income tax expense	**1,890**	2,553

The following table summarizes the tax effect of temporary differences:

	[illegible] 31,	
	2006	[illegible]
($ thousands)	**$**	[illegible]
Future income tax assets (liabilities):		
Carrying value of capital assets in excess of tax basis	**(5,836)**	(3,976)
Asset retirement obligation	**483**	387
Share issue costs	**405**	370
Attributed crown royalty income	**175**	128
	4,773	3,091

7. FINANCIAL INSTRUMENTS

Financial instruments consist primarily of accounts receivable, prepaid expenses, accounts payable and accrued liabilities and bank debt. There are no significant differences between the carrying value of these instruments and their estimated fair value.

A portion of the Company's accounts receivable are from joint venture partners in the oil and gas business and are subject to normal industry credit risk. Purchasers of the Company's petroleum and natural gas products are subject to an internal credit review designed to mitigate the risk of non-payment and the carrying value reflects management's assessment of the associated credit risks.

The Company is exposed to fluctuations in commodity prices that are based in foreign currency.

The Company did not enter into any contracts during the year that would have reduced its exposure to fluctuations in commodity prices or exchange rates.

Subsequent to year-end, the Company entered into the following contracts:

Type	Amount	Term	Price ($/GJ)	Type
Collar	2,000 GJ/d	February 1 – October 31, 2007	$5.50 - $8.25 at AECO	Financial
Collar	2,000 GJ/d	March 1 – October 31, 2007	$5.50 – 9.13 at AECO	Financial

8. SUPPLEMENTAL CASH FLOW INFORMATION

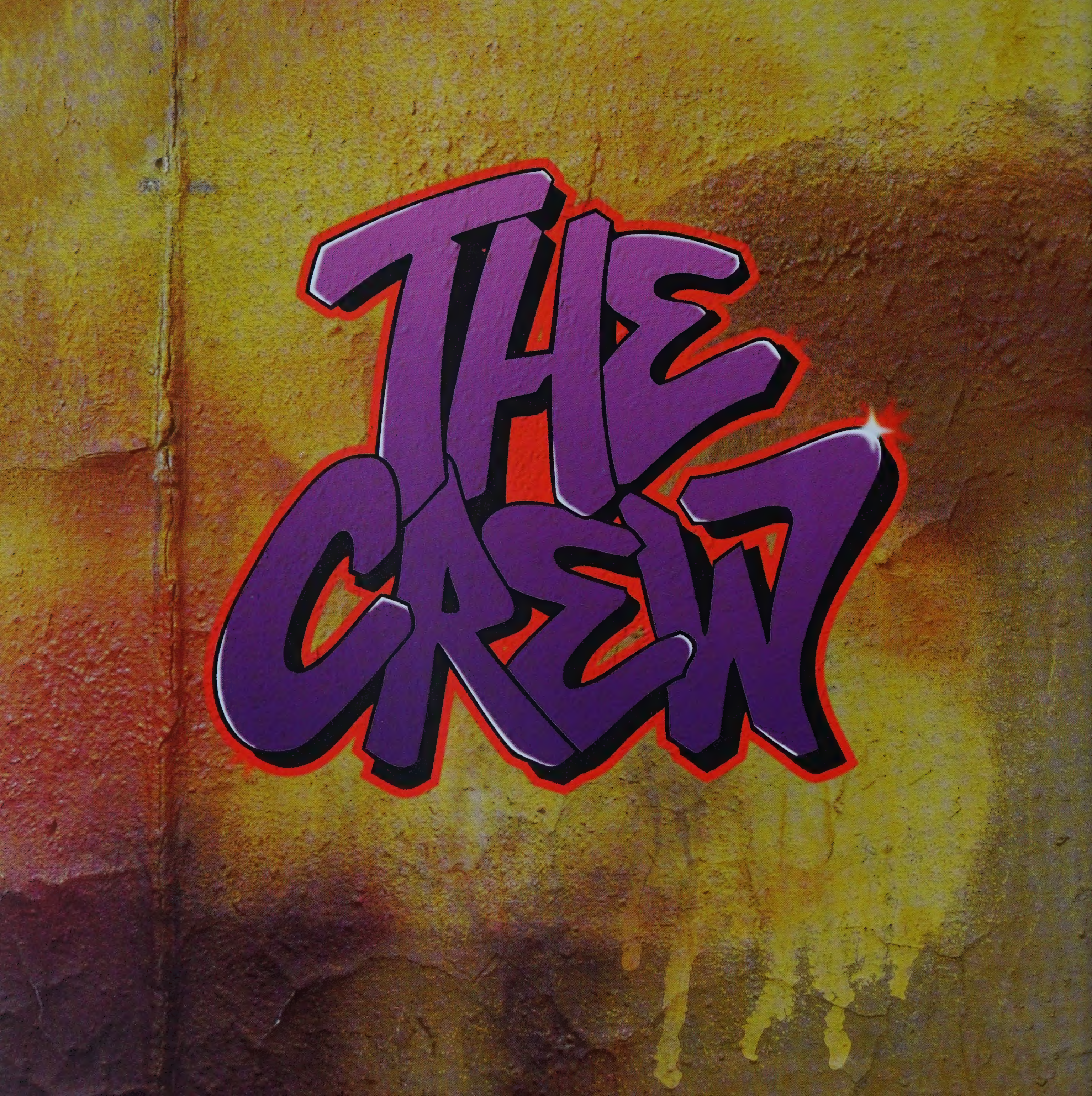
Change in non-cash working capital comprises:

	December 31,	
($ thousands)	2006 $	2005 $
Accounts receivable	**800**	(5,041)
Prepaid expenses	**(67)**	8
Accounts payable and accrued liabilities	**(10,175)**	12,116
Change in non-cash working capital	**(9,442)**	7,083
Relating to:		
Investing activities	**(7,317)**	7,948
Operating activities	**(2,125)**	(865)
	(9,442)	7,083

9. COMMITMENTS

The Company has entered into various commitments related to the leasing of office premises and office equipment. The payments due under such leases are as follows:

Contractual obligations ($ thousands)	2007 $	2008 $	2009 $	2010 $	2011 $	Thereafter $
Office premises	189	47	-	-	-	-
Office equipment	9	2	1	-	-	-
	198	49	1	-	-	-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Corporate Information

MANAGEMENT

Peter Salamon
President and CEO

Ray Dobek
Executive Vice President, Exploration

Tom Dalton
Vice President, Finance and CFO

Norm George
Vice President, Production and Operations

Andy Kirby
Vice President, Land

Rick Campbell
Vice President, Engineering

DIRECTORS

Brian Mellum - *Lead Director*
Managing Director, Toscana Capital Corporation

John Poetker
Partner, Borden Ladner Gervais LLP

Kenneth Faircloth
Investment Advisor, Retired

Michael Kanovsky
President, Sky Energy Company

Peter Salamon
President and CEO, Accrete Energy Inc.

Ray Dobek
Executive Vice President, Accrete Energy Inc.

BANKER

National Bank of Canada
Calgary, Alberta

AUDITORS

KPMG LLP
Calgary, Alberta

LEGAL COUNSEL

Borden Ladner Gervais LLP
Calgary, Alberta

Accrete energy inc.

2100, 500 - 4 Avenue S.W.
Calgary, AB T2P 2V6
Tel: (403) 269-8846
Fax: (403) 269-8366

www.accrete-energy.com